



ECONOMIC CONTRIBUTION OF ZAKAT IN POVERTY ALLEVIATION: SOME EVIDENCE FROM MALAYSIA

by

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1.0 Introduction

- Poverty and income inequality are common problems encountered in less developed and developing countries.
- At the start of the new century, the World Bank discovered;
 - i) poverty remains a global problem of huge proportions.
 - ii) Of the world's 6 billion people; 2.8 billion live on less than \$2 a day, and 1.2 billion on less than \$1 a day.
- The eight MDGs set a target of halving the number of people living in abject poverty by 2015 and improving their quality of life .
- Among the OIC countries, 22/57 (39%) are grouped under heavily indebted poor countries; and out of 41 HIPC, 22 (53.7%) are OIC countries.

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Socio-Economic Implications of Zakat

It should be noted that the collection and disbursement of zakat have important socio-economic implications. Some of the significant ones are specifically related to the distribution of income and wealth and poverty alleviation.

1) Zakat and income distribution

Wealth should not be concentrated in few hands, but rather it should be circulated among the people of the community. zakat plays a significant role in redistribution of income and wealth; through which certain portions of the wealth belonging to the rich should be given away to the poor, so that each and every individual is assured of minimum means of livelihood.

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2. Zakat and Elimination of Poverty

The primary socio-economic objective of zakat is to eliminate poverty from the Islamic society. Islam regards poverty as a serious problem. The Holy Prophet (saw.) also paid due attention to poverty. He made it clear to the companions that zakat should be spent for ameliorating the condition of the poor. There is a Consensus among Islamic scholars that the higher priority in disbursement of zakat is for the eradication of poverty.

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Zakat budget in Malaysia (1995 – 2005)

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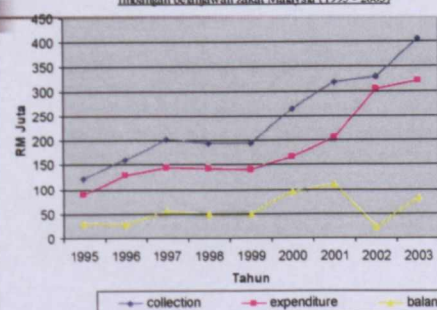
YEAR	AMOUNT (RM MILLION)										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
collection	124.32	161.97	203.46	196.87	195.51	267.78	320.36	331.47	408.4	473.3	573.1
expenditure	92.07	132.4	146.7	144.7	143.5	170.5	207.4	306.3	325.0	n.a	401.5
balance	32.25	29.57	56.76	52.17	52.01	97.28	112.96	25.17	83.4	n.a	171.6

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Rajah 1

Imbangan belanjawan zakat Malaysia (1995 - 2003)



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Research objective:

To examine the economic contribution of zakat on poverty alleviation by using four major poverty indices namely poverty incidence, poverty gap, income gap and Sen index. These poverty indices would measure the burden of poverty in terms of poverty incidences, the intensity, and the severity of poverty. Empirical evidence is given by using Malaysian data.

Research hypothesis:

Zakat distribution reduces the burden of poverty in the society.

2. LITERATURE REVIEW

- M.A. Mannan (1989): multiplying effect of zakat would improve the standard of living, increase income level, and reducing poverty and income inequality.
- Muhammad Anwar (1995): zakat has potential on financing long term development project to improve the standard of living of the poor.
- (Ma'sum Billah, 1996): Zakat as a major componet in the Islamic social security system.

- Monzer Kahf (1999): poverty alleviation cannot be put under the responsibility of zakat alone since zakat is only a redistributive mechanism- He suggested that the sources of zakat fund to be widened up and hence would increase the amount of zakat collection.
- Kuran (2000), (Pakistan, Malaysia, and Saudi Arabia) –If zakat alone to be used to counter poverty it will not be a success because zakat does not play major economic role in the society.

● Empirical Works On the impact of Zakat on Poverty.

- Patmawati Ibrahim (2002, 2005) adopted household count ratio, poverty gap, income gap, Sen index and FGT index. Using Lorenz curve, Gini coefficient and Atkinson index to measure the effect of zakat on income distribution and welfare of the society,
- Fuadah Johari (2004), Nurhikmah Nursham (2006) : all adopted household count ratio, poverty gap and income gap.
- Shirazi (1996) - study the effects of zakat on poverty in Pakistan. Ismail Muhd Salleh and Rogayah Ngah (1980) – using Lorenz curve and Gini coefficient to study the distribution of the zakah burden on padi producers in Malaysia.

- Jehle (1994)- employing AKS index of inequality, examined the impact of zakat on income inequality in Pakistan.
- Choudhury (1989) - developed a macroeconomic model for Malaysia for the period of 1970-85, with the view of estimating the effects of some major economic indicators on the product market, labor market, financial sector and the consumption and investment function for the Malaysian economy. The model system was then reworked with critical Islamic indicators such as the zakat expenditure and the profit rate replacing interest rate.

3. RESEARCH METHODOLOGY

- This study is a type of inter-temporal analysis.
- Based on micro level information, this study explored cross-section household monthly income data of the zakat recipients from the fuqara and masakin category in the nine districts of Selangor.
- A method of stratified random sampling procedure is applied. The samples are selected from the list of zakat recipients from the poor and needy category (*asnaf fakir and miskin*), of all the nine districts of Selangor, provided by the Pusat Zakat Selangor (PZS). Of each districts, only three *mukim* are selected. The respondents are between 5-10 percent of the total population, i.e. the total number of *fuqara* and *masakin* households of each district.
- 500 samples selected, after the data cleansing, 20 respondents are not valid. Thus, left with 480 samples to be analysed.
- The information from the questionnaire was processed using SPSS program.

4. DATA ANALYSIS

- To see the effects of zakat on poverty, following Kakwani (1986), Shirazi (1994) and Jehle (1994), the amount of the zakat distribution is subtracted from the income of the household, and then estimated on the basis of national poverty line.
- There will be two sets of data, one is before the amount of zakat distribution is included in the household income, and another set of data is after the amount of zakat distribution is included in the household income.
- both zakat distributions in cash and in kind are converted into money value.
- The poverty measures will be estimated on both data sets to see the effect of zakat distribution on poverty.

Cont.


- The effects of zakat distribution on poverty are analyzed within the context of burden of poverty; specifically in terms of **incidence, intensity and severity of poverty**. These are examined using four major indices of poverty, which include the **household count ratio, average poverty gap, income gap, and the Sen index**. The difference between both the results (before and after zakat distribution) will show the impact of zakat distribution on poverty.
- The calculation in data analysis was done using Excel program.

1. To measure the effects of zakat distribution on poverty incidence of the society.	<p>•Head-count (household-count) ratio, H</p> $H = \frac{q}{n}$ <p>Where :</p> <p>q : the number of household below the poverty line.</p> <p>n : the total number of households.</p> <p>•This measure gives the proportion of the poor households among the total households. The model will be estimated on both data sets of pre- and post- zakat distribution household income, Y_1 and Y_2 accordingly.</p>	<p>•The different value of H_1 and H_2 will give the poverty incidence of pre- and post-zakat distribution. If,</p> $H_1 > H_2$ <p>→it shows that zakat distribution to the household income has reduced the poverty incidence of the society, vice versa.</p>
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2 To measure the effects of zakat distribution on the extent of poverty	<p>1) Measured by using poverty gap (P_1)</p> <ul style="list-style-type: none">• $P_1 = z - y_i$ <p>where :</p> <p>z : poverty line</p> <p>y_i : income of the ith population</p> <p>The poverty-gap tells us the amount of income shortfall of the poor in RM. in other words it is the amount of deficit from the poverty line. The poverty gap will be estimated on both Y_1 and Y_2 frequency income distribution</p>	<p>P_{1_1} : income gap pre-zakat distribution.</p> <p>P_{1_2} : income gap post- zakat distribution.</p> <p>If ,</p> $P_{1_1} > P_{1_2}$ <p>→it shows that zakat distribution has reduced the extent of poverty in the society, vice versa.</p> <p>→This index also indicates how much more is needed to bridge the poverty gap so as to eliminate poverty in the society.</p>
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2) Measured by using income-gap ratio	$I = \sum_{i=1}^n \frac{g_i}{qz}$ <p>where ;</p> <p>$g_i = z - y_i$ is the income short-fall of the ith poor,</p> <p>z : poverty line</p> <p>q : number of people whose income is below the poverty line.</p> <p>The income-gap ratio tells us the percentage of the poor mean short-fall from the poverty line. It is a per-person percentage gap, based on the poverty deficit of the poor from the poverty line. The income gap will be estimated on both Y_1 and Y_2 frequency income distribution.</p>	<p>I_1 : income gap pre-zakat distribution.</p> <p>I_2 : income gap post- zakat distribution.</p> <p>If ,</p> $I_1 > I_2$ <p>→it shows that zakat distribution has reduced the extent of poverty in the society, vice versa.</p> <p>→This index also indicates how much more is needed to bridge the poverty gap so as to eliminate poverty in the society.</p>
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3. To measure the effects of zakat distribution on the severity of poverty.	<p>Seri index of poverty.</p> <p>•This index is a comprehensive poverty measure, which incorporates the information on the number of poor (H), the extent of poverty (I), and the Gini coefficient (G) as an indicator of income distribution among the poor. The persons are numbered in a non-decreasing order of income, satisfying:</p> $y_1 \leq y_2 \leq \dots \leq y_n$ <p>The Sen poverty index</p> $P = H [I + (1 - I)G]$ <p>where;</p> $H = q / n$ $I = \sum g_i / qz$ <p>G = Gini coefficient of the income distribution of the poor.</p>	<p>•The Sen index will be estimated on both data sets of Y_1 and Y_2 frequency household income.</p> <p>•The value of P lies in the closed interval $[0,1]$, with $P=0$, if everyone has income greater than z, and $P=1$ if everyone has zero income.</p> <p>P_1 : the severity of poverty of pre-zakat distribution.</p> <p>P_2 : the severity of poverty of post zakat distribution.</p> <p>If, $P_1 > P_2$</p> <p>→it shows that zakat distribution has reduced the severity of poverty in the society, vice versa.</p>
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5. RESEARCH FINDINGS

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Table 1
Selangor Poverty Measures, pre And post- Zakat Distribution (By Districts) in The Households' Income

DISTRICTS	PRE- ZAKAT DISTRIBUTION				POST-ZAKAT DISTRIBUTION			
	H	P1 (RM)	I	P2	H	P1 (RM)	I	P2
SELANGOR	0.62	315	0.59	0.47	0.47	281	0.53	0.32
Urban area								
Gombak	0.55	350	0.66	0.45	0.55	299	0.56	0.32
Hulu Langat	0.65	330	0.62	0.51	0.58	271	0.51	0.38
Klang	0.45	274	0.52	0.32	0.39	217	0.41	0.23
Petaling	0.48	337	0.64	0.38	0.38	302	0.57	0.26

Note:
H : Household-count ratio (poverty incidence) ; P₁ : Average poverty gap ; I : Income gap ;
P₂ : Sen index of poverty

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CONT.

DISTRICTS	PRE- ZAKAT DISTRIBUTION				POST-ZAKAT DISTRIBUTION			
	H	P1 (RM)	I	P2	H	P1 (RM)	I	P2
Rural area								
Hulu Selangor	0.55	316	0.59	0.42	0.40	296	0.56	0.29
Kuala Langat	0.68	325	0.61	0.54	0.52	301	0.57	0.37
Kuala Selangor	0.77	372	0.70	0.64	0.65	328	0.62	0.49
Sabak Bernam	0.69	292	0.55	0.49	0.39	293	0.55	0.28
Selangor	0.64	323	0.61	0.48	0.54	278	0.53	0.34

Note:
H : Household-count ratio (poverty incidence) ; P₁ : Average poverty gap ; I : Income gap ;
P₂ : Sen index of poverty

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From the table;

How Many Are Poor - Poverty Incidence

- zakat distribution has reduced poverty incidence among the poor zakat recipients in Selangor significantly from 62 percent to 47 percent.
- In the urban area, poverty incidence is highest in Hulu Langat (0.65) reduced to 0.58 after the zakat distribution; and the lowest in Klang, (0.45), reduced to 0.39 after the zakat distribution
- In the rural area poverty incidences are high, with all exceeding 55 percent. The worst area is Kuala Selangor (0.77) reduced to 0.65 after the zakat distribution and the lowest is Hulu Selangor (0.55), reduced to 0.4 after the zakat distribution

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Cont.

- **The Extent Of Poverty**
- The extent or depth of poverty is measured by using the average poverty gap (P1) and income-gap ratio, (I). The extent of poverty in Selangor has reduced with the zakat distribution. The average poverty gap has minimized from RM 315 without zakat to RM 281 with zakat assistance. Income gap ratio has declined from 0.59 to 0.53.
- The extent of poverty in the urban area is higher than the rural area.

Cont.

The Severity Of Poverty

- The severity of poverty in Selangor has reduced with zakat distribution to the households' income. The Sen Index of poverty show a decline in the severity of poverty from 0.47 to 0.32.

Conclusion

- **Zakat distribution has positive contribution in reducing poverty in terms of :**
- 1. Zakat distribution has reduced poverty incidence,
- 2. Zakat distribution has reduced the extent of poverty in the society.
- 3. Zakat distribution has lessen the severity of poverty.
- Zakat has managed to provide a better living condition to the poor Rumah responden, powerpoint